

Shifting Ground - How Geopolitics Is Reshaping Growth, Monetary Policy and the Role of Gold as a Reserve Asset

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1 Introduction

Ladies and gentlemen, it is a great pleasure for me to speak at this year's Global Precious Metals Conference here in Sorrento.

Sorrento's most famous literary son – Torquato Tasso – wrote one of the great epics of the European Renaissance. His *Jerusalem Delivered* depicts a world of conflict, competing powers and shifting loyalties. That sounds familiar, doesn't it?

Geopolitical rivalry and security concerns are increasingly shaping trade, investment and supply chains. This new geopolitical environment is the common thread running through my remarks today.

It affects the economic outlook, because it can lead to supply shortages, disrupt supply chains and increase uncertainty.

It affects monetary policy, because geopolitical shocks influence inflation and the balance of risks central banks are faced with.

And it affects central bank reserve management, because a more fragmented and uncertain global environment raises questions about portfolio diversification, resilience – and, ultimately, the role of gold.

2 Economic developments

I'll begin by addressing the economic outlook. Recent economic developments have been influenced by the conflict in the Middle East and the disruption to shipping through the Strait of Hormuz –

geopolitics at play.

So far, the global economy has been remarkably resilient in the face of these challenges. Global growth remains robust. World trade has continued to expand. And investment in artificial intelligence infrastructure is particularly strong. The global growth outlook has therefore remained broadly stable.

The euro area economy has also proved more resilient than expected. Growth has been broad-based. Exports and private consumption have been stronger than anticipated, while industrial activity has continued to recover.

In their latest macroeconomic projections published at the Governing Council's September meeting, ECB staff revised the growth outlook for 2026 and 2027 upwards.[1] The economy is now expected to expand by 0.9 percent in 2026 and by around 1½ percent in both 2027 and 2028.

Domestic demand should become the main engine of growth. Private consumption should benefit from recovering real household incomes and a resilient labour market. And investment should be supported by spending on digitalisation, the green transition, energy security, defence and artificial intelligence. Overall, the outlook for economic growth in the euro area remains cautiously optimistic.

For Germany, the picture is quite similar. According to the latest assessment by Bundesbank staff, Germany has entered a gradual recovery. Robust foreign orders and improving industrial sentiment signal broad-based momentum. Furthermore, public infrastructure and defence spending should provide key support. We may well see real economic growth of around 1 percent on average over the year.

In both the euro area as a whole and in Germany, then, the picture is broadly similar: Growth has been surprisingly resilient. But the outlook remains uncertain, and is closely linked to geopolitics, particularly through trade, energy prices and confidence.

3 Monetary policy

What are the implications of this economic outlook for monetary policy in the euro area?

The immediate impact of the conflict in the Middle East is higher energy prices. Central banks cannot prevent this initial increase in prices. Higher policy rates do not produce more oil or gas, repair damaged infrastructure or reopen trade routes. However, this does not mean that monetary policy can simply ignore the energy price shock.

The key question central bankers face in such a situation is whether the shock is temporary and contained, or persistent and broadening.[2] If higher energy prices remain isolated and abate quickly, monetary policy can, in principle, look past this initial shock.

However, the situation changes when the shock becomes persistent. Firms may begin to pass higher input costs on to consumers. Workers may seek higher wages to compensate for the loss of purchasing power. The longer the energy price shock persists, the more deeply it becomes embedded in firms' pricing decisions and wage negotiations. Monetary policy must then act to prevent the shock from becoming self-sustaining.

Where do we stand in this regard?

According to the latest ECB staff macroeconomic projections, euro area inflation is expected to

average 3.0 percent in 2026. The inflation rate is projected to fall to 2.5 percent in 2027 and 2.1 percent in 2028.[3] Price pressures are anticipated to remain strong, even excluding volatile energy and food prices.

Furthermore, upward risks dominate the inflation outlook for the euro area. Gas prices are especially vulnerable because storage levels are low, and Europe may need to buy substantially higher volumes during the winter. The destruction of refining capacity is driving up prices for refined petroleum products significantly. Drought, wildfires and fertiliser shortages also pose risks to food prices.

However, there are so far no clear signs that inflation has fed through to price and wage setting. At the same time, longer-term market-based and expert expectations remain consistent with the Eurosystem's 2 percent inflation target.

We have therefore responded cautiously, but firmly. The ECB Governing Council raised its key interest rates by 25 basis points at both its June and September meetings. The deposit facility rate – the interest rate banks receive for overnight deposits with the Eurosystem – now stands at 2.5 percent.

The future path of inflation will continue to depend heavily on geopolitics. A sustained reopening of the Strait of Hormuz, the normalisation of energy flows and a restoration of refining capacity would reduce inflationary pressure. A renewed escalation, by contrast, could raise energy prices further and generate additional disruptions.

This high uncertainty surrounding the inflation outlook calls for flexibility, not inaction. The ECB Governing Council will continue to take decisions on a data-dependent, meeting-by-meeting basis. This approach has proved its worth thus far and will continue to serve us well.

I'll leave it at that as regards the economic outlook and monetary policy.

4 Gold as a reserve asset

In the remainder of this keynote speech, I would like to take a step back from my day-to-day perspective as a central banker. Geopolitics, after all, not only shapes short and medium-term economic developments. It also changes how central banks assess the safety and usefulness of their reserve assets.

That brings me to an asset that is central to this conference: gold. And, in specific terms, the more fundamental, long-term question: How has the role of gold as a central bank reserve asset changed in recent decades, and how has geopolitics influenced this?

Central banks hold reserves as insurance against external financial pressures. Reserves provide access to foreign currency in times of stress, support the exchange rate where necessary and strengthen confidence in the central bank's ability to meet external obligations.

In practice, central banks manage their reserve portfolios along three dimensions: liquidity, safety and return. Liquidity matters because reserves may need to be mobilised quickly. Safety is important because reserves are intended to provide protection in times of stress. For this reason, liquidity and safety are generally prioritised. However, returns on eligible assets also matter.

The two most prominent categories of central bank reserve assets are gold and foreign exchange reserves. Foreign exchange reserves consist mainly of holdings of foreign government debt

securities and deposits with foreign banks and central banks. Reserves also include the special drawing rights (SDRs) issued by the IMF, the reserve position in the IMF and, in some cases, other claims.

Foreign exchange reserves are generally better suited for exchange rate interventions and providing liquidity. Gold is less convenient for those purposes. The distinctive characteristic of physical gold is that it does not depend on an issuer or counterparty fulfilling a payment obligation. Gold can therefore provide diversification in a reserve portfolio.[4]

The recent history of gold as a central bank reserve asset can be told in three chapters: anchor, retreat and return.

4.1 Anchor: gold as a cornerstone of the monetary system

At the end of the Second World War, gold functioned as an anchor of the monetary system. Currencies were pegged to the US dollar, which in turn was redeemable in gold – the Bretton Woods system. In 1950, gold at market value accounted for almost 70 percent of global central bank reserves.[5] These gold stocks were highly concentrated, with the United States holding around 70 percent.

Until the end of the 1960s, the share of gold in central bank reserves declined only slowly. Advanced economies started to accumulate foreign exchange reserves at a faster pace than gold reserves and the price of gold remained broadly stable.

At the same time, the geographical distribution of official gold holdings shifted from the United States to Europe, with the US share falling to 30 percent. US dollar liabilities to foreign official holders increased, partly reflecting the fiscal costs of the Vietnam War. As a result, doubts grew about the United States' ability to maintain the dollar's convertibility into gold. This tension ultimately contributed to the collapse of the Bretton Woods system.

The 1970s subsequently saw large fluctuations in gold as a share of reserves, driven by two opposing factors. On the one hand, central banks outside the United States built up foreign exchange reserves even faster. This reduced the relative importance of gold. On the other hand, the price of gold began to rise significantly and sustainably after the United States suspended the US dollar's link to gold. This increased the share of gold reserves.

After the collapse of the Bretton Woods system and following almost a decade of adjustment, the gold share stood at close to 60 percent in 1979.[6] This was a noticeable but not substantial decline compared to 1950.

In short, the era of gold as a monetary anchor ended, but gold remained a major component of central bank reserves.

4.2 Retreat: gold's declining role during globalisation

The beginning of the 1980s marked the start of a retreat in terms of the relative importance of gold in central bank reserves. Over the next three decades, gold as a share of reserves dropped from 60 percent to around 10 percent in 2009.⁸ For advanced economies, the share only fell to 20 percent. By contrast, for emerging and developing economies, it dropped as low as 3 percent.

Central bank gold sales, together with the broadly stable gold price over much of this period, meant that the market value of gold on central bank balance sheets fell. More importantly, central banks

started to accumulate large amounts of foreign exchange reserves. Until the beginning of the 2000s, this process was still mainly driven by advanced economies, especially Japan. Subsequently, emerging markets' foreign exchange reserves started to grow rapidly, especially in China.[7] At the beginning of the 2000s, gold prices began to rise, preventing an even sharper decline in the gold share.

What can explain these developments?

First, once gold ceased to anchor the international monetary system, its strategic role in reserve management became less central.[8]

Second, holding gold became more costly in relative terms.[9] Gold pays no interest, entails storage costs and offers no positive yield unless its price rises. By contrast, during the 1980s and 1990s, government securities offered relatively attractive yields.

Third, geopolitics took a back seat to economic integration and international cooperation. Following the collapse of the Soviet Bloc, the dominant trend was toward deeper global economic integration. Trade and capital markets were liberalised, the World Trade Organization was established, global value chains expanded and cross-border financial integration deepened.[10]

All this increased the relative attractiveness of US debt securities and other foreign exchange assets compared with gold.[11]

To sum up: globalisation, liquid bond markets and an international environment oriented towards integration and cooperation reduced the relative appeal of gold.

4.3 Return: central banks re-emerge as gold buyers

After the global financial crisis, this trend began to reverse. Central banks returned as active buyers of gold, most notably those of China and Russia. Gold prices entered a sustained upward trend, despite considerable fluctuations during the 2010s. Furthermore, the accumulation of foreign exchange reserves slowed down noticeably. Together, these three factors brought the multi-decade decline in gold as a share of reserves to an end.

Several factors appear to explain this reversal.

First, government securities became relatively less attractive. The main reason for this was that expansionary monetary policy, including asset purchase programmes, reduced the overall level of interest rates.[12] This lowered the opportunity costs of holding gold.[13]

Second, since the late 2010s, geopolitical considerations have become much more prominent. On the one hand, gold has often functioned as a safe-haven asset during periods of economic, financial and geopolitical stress.[14] On the other hand, financial sanctions seem to have been an additional driver of gold purchases.[15] The mechanism is straightforward: foreign securities and deposits can potentially be frozen. Physical gold held domestically is not subject to the same risk.

As a result, gold as a share of global reserves rose from 10 percent in 2009 to around 14 percent in 2023. In advanced economies, the share remained broadly stable at around 20 percent. By contrast, it rose from 3 percent to 8 percent in emerging and developing economies.

In short, lower returns on foreign exchange assets and an increase in geopolitical risk renewed central banks' interest in gold.

From 2023 to 2025, the share of gold in global reserves jumped to almost 25 percent. The main driver has been the sharp increase in gold prices. Had gold prices stayed at their 2023 levels, the gold share would have fallen from 14 percent to 12 percent.

So where do we go from here?

The recent rise in global government bond yields has boosted the relative attractiveness of debt securities again. At the same time, rising debt levels have increased concerns about the credit risk of these assets. Furthermore, geopolitical risks are likely to continue to shape reserve management decisions. Taken together, the case for further diversification into gold remains significant.

5 Conclusions

Ladies and gentlemen, to sum up: Geopolitics can influence economic growth, make inflation more volatile and shift the composition of central bank reserves. It is a defining feature of our time and will continue to occupy the attention of central bankers.

Let me end my speech by returning to where I began: Tasso's *Jerusalem Delivered*. At one point in his poem, two characters arrive at a palace. Its gates are made of sculpted silver and hang on hinges of shining gold. Yet the two characters focus their attention on the figures engraved on the gates, not on the metal itself. As Tasso writes, *the material was surpassed by the workmanship*.

This also holds true for the precious metals industry. Gold is more than a material: Its significance depends on what people make of it.

Footnotes:

1. See ECB (2026), ECB staff macroeconomic projections for the euro area, September 2026.
2. For a broader discussion of this topic, see Nagel (2026), Under what circumstances is the inflation rate too low?, speech at the Monetary and Financial Colloquium, Karlsruhe Institute of Technology (KIT), Karlsruhe.
3. See ECB (2026), op. cit.
4. See Mak, I. and E. Vaccaro-Grange (2026), Gold in Central Bank Reserves: Strategic Considerations, Market Risks, and Practical Guidance, IMF Notes, 2026/007.
5. The following statements rely on the IMF's International Liquidity database. The numbers refer to gold at market value. Global aggregates refer to the country group "Advanced, Emerging and Developing Economies" as defined by the IMF. They thus exclude the reserve holdings of the BIS and the IMF.
6. For an explanation of the persistent role of gold, see Monnet, E. and D. Puy (2020), Do old habits die hard? Central banks and the Bretton Woods gold puzzle, *Journal of International Economics*, Vol. 127, Article: 103394.
7. For a detailed account, see Aizenman, J. and J. Lee (2007), International Reserves: Precautionary Versus Mercantilist Views, Theory and Evidence, *Open Economies Review*, Vol. 18, pp. 191-214.
8. See Bordo, M. and B. Eichengreen (1998), The Rise and Fall of a Barbarous Relic: The Role of Gold in the International Monetary System, NBER Working Papers 6436.
9. For a comprehensive treatment of gold as an investment, see Fergal A., F. O'Connor, B. Lucey, J. Batten and D. Baur (2015), The financial economics of gold – A survey, *International Review of Financial Analysis*, Vol. 41, pp. 186-205.
10. For a detailed description of the post-Cold War phase of globalisation, see Baldwin, R. (2016), *The Great Convergence: Information Technology and the New Globalization*, Harvard University Press.

11. For a general account, see Eichengreen, B. (2011), *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*, Oxford University Press.
12. See Liu, Z., J. Zhang, R. Gu, Q. Hu and S. He (2025), Driving effects of US monetary policy and geopolitical risks on gold reserve share, *International Review of Financial Analysis*, Vol. 105, Article 104391.
13. See Gopalakrishnan, B. and S. Mohapatra (2018), Turning over a golden leaf? Global liquidity and emerging market central banks' demand for gold after the financial crisis, *Journal of International Financial Markets, Institutions and Money*, Vol. 57, pp. 94-109.
14. For a general discussion on gold as a safe haven, see Ming, L., Yang P. and Q. Liu (2023), Is gold a hedge or a safe haven against stock markets? Evidence from conditional comoments, *Journal of Empirical Finance*, Vol. 75, Article 101439. For its geopolitical risk-hedging properties, see Baur, D. and L. Smales (2020), Hedging geopolitical risk with precious metals, *Journal of Banking & Finance*, Vol. 117, Article 105823.
15. See Arslanalp, S., B. Eichengreen and C. Simpson-Bell (2023), Gold as international reserves: A barbarous relic no more?, *Journal of International Economics*, Vol. 145, Article 103822.

<https://www.bundesbank.de/en/press/speeches/shifting-ground-how-geopolitics-is-reshaping-growth-monetary-policy-and-the-role-of-gold-as-a-reserve-asset-1010452>